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ABSTRACT

As states continue to struggle balancing child care program quality and equal access to quality programs for all eligible children, market rate surveys can be an effective tool in obtaining information on which to base public policy. This issue brief summarizes for state child care lead agencies some of the options related to conducting market rate surveys. The brief details the goals for market rate surveys and provides a rationale for conducting this type of survey. Suggestions for conducting effective market rate surveys include defining the market to survey and considering various methods of calculating subsidy rate ceilings. Tips pertaining to survey methodology relate to drawing a sample versus a census survey, conducting a telephone versus a mail survey, developing the marketing plan, developing the survey instrument, conducting the survey in-house or through a contractor, and identifying the best time of year to conduct the survey. Also included in the issue brief are two pullout sheets to be used in disseminating information on market rate surveys to two key stakeholder groups: providers and policymakers. The first insert addresses the importance of provider participation in the survey; the second insert is designed to educate policymakers on using market rate surveys as a tool for learning about the condition of children in their states. The brief concludes by asserting that the market rate survey can be an effective tool to help state child care administrators ensure equal access to quality programs for all eligible children and families. (KB)

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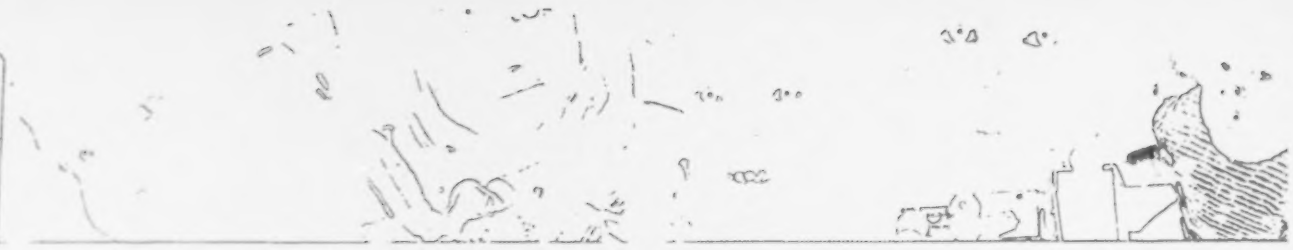

Effective Approaches to Market Rate Surveys

Issue Brief

Child Care Administration Project

The Child Care Administration Project (CCAP), a project of the Child Care Bureau, Administration for Children and Families (ACF), U.S. Department of Health and Human Services, provides technical assistance to State Child Care Lead Agencies on issues related to the Administration of the Child Care and Development Fund (CCDF) subsidy program.

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U.S. Department of Health and Human Services
Administration for Children and Families
Administration on Children, Youth and Families
Child Care Bureau

ABC'S OF MARKET RATE SURVEYS

This issue brief is intended to briefly summarize for State Child Care Lead Agencies some of the options related to conducting market rate surveys. As States continue to struggle in balancing program quality and ensuring equal access of quality programs to all eligible children, market rate surveys can be an effective tool.

Thinking of a market rate survey as a tool, this issue brief will provide some pointers and address issues that will be helpful to states exploring the essentials involved in conducting an effective market rate survey. The issue brief also contains two separate pullout sheets to be used in disseminating information on market rate surveys to two key stakeholder groups: providers and policymakers. The first insert addresses the importance of provider participation in the survey. The second insert is designed to educate policymakers on using market rate surveys as a tool for learning about the "state of child care" in their States.

As State Child Care Administrators, you are charged with increasing the accessibility, affordability, and quality of child care in your State. A market rate survey which can enhance a State's capacity to collect and analyze data is critically needed in order to have timely, relevant information on which to base policy.

WHAT IS A MARKET RATE SURVEY?

"In economic terms, a market is any place where buyers and sellers interact. Because families tend to purchase child care which is near their home or work, child care markets tend to be geographically defined. A child care market survey measures the child care prices charged by the providers and paid by the consumers in a specific geographic area."[1]

[1] *Stoney, Louise. "Promoting Access to Quality Child Care: Critical Steps in Conducting Market Rate Surveys and Establishing Rate Policies," Aug 1994. Children's Defense Fund.*

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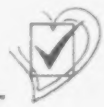
The goals of a market rate survey include:

- ★ Obtaining information regarding the price of care in local child care markets throughout your State.
- ★ Gathering descriptive information about child care providers in your State. For example, this could include information on supply of care, program auspices, staff qualifications and compensation, and program accreditation.
- ★ Gathering information that can help you set policy. This could include information on the factors that most providers use to determine the price of care, such as typical rate units (hourly, daily, weekly, monthly), age break-outs (infant, toddler, preschool, school-age), and absence policies.

WHY CONDUCT A MARKET RATE SURVEY?

In July 1998, the U.S. Department of Health and Human Services issued regulations pertaining to the Child Care and Development Fund (CCDF). The regulation included a requirement that States conduct local market rate surveys no earlier than two years prior to the effective date of their current CCDF plan. Lead Agencies must also assure that subsidy rates are sufficient "to ensure equal access" for eligible families to child care services that are comparable to those provided to families who do not receive subsidies (45 CFR., section 98.43). A market rate survey can provide reliable data on the price charged by child care providers in a specific geographic area and therefore guide the State in ensuring that the subsidy rate ceilings it establishes are sufficient to allow eligible families equal access to services.

HOW TO CONDUCT AN EFFECTIVE MARKET RATE SURVEY



Planning is essential. How will you organize a survey that results in accurate data and a high response rate?

Define the market to survey

Before you develop a survey instrument, you will need to think carefully about who will be included in the survey.

What categories of child care will you include in the survey? At a minimum, include child care centers, family child care homes, and school-age programs. Remember that you will need representative samples of these providers to have sound data. Think carefully about the diversity of providers within each category. Head Start, prekindergarten, and nursery schools are all center-based care. Do these provider types need to be coded separately? Will you include exempt and/or "informal" caregivers in the survey? If so, how can you ensure a representative sample?

How will you define areas for rate-setting purposes—zip codes, counties, regions, social service districts? Or do you want to use the survey data to help define areas with similar child care prices?

As you design the survey, consider exactly what information you will need in order to use the survey results to set payment rates.

Key factors to consider include:

- ★ Age breakouts (how are infants and toddlers defined? Do these definitions reflect your regulations?)
- ★ Units of service (will price data be collected by the hour, the day, the week?)
- ★ Slots vs. providers (see text box on next page)
- ★ Special fees (such as registration or transportation) that may be included in the base rate reported on the survey or reported separately.

SLOTS VERSUS PROVIDERS

Many States set their subsidy rate ceilings at a percentile of the market rate—often the 75th percentile. This means that the maximum rate paid by the State is equal to or greater than the price of at least 75% of the care in a particular category and rate area.

Let's assume that the State intends to establish a rate ceiling for each county. To determine the 75th percentile, the State would take the data from that particular county and rank all of the rates (or slots) in a category from lowest to highest. The number separating the 75 percent of providers (or slots) with the lowest rates from the 25 percent with the highest rates is the 75th percentile.

There are two ways to rank the data: (A) listing the rates for each slot available for that age group; or (B) listing the rates for each provider that accepts children in that age group.

Assume, for example, that there are four providers in a community. One of those providers has six toddler slots, at $95 each; another has two toddler slots at $85 each; a third has three toddler slots at $75 each; and the fourth has one toddler slot at $70. In this case, the 75th percentile would be calculated as follows:

A. By Slot:	B. By Provider:
$95	$95
$95	*$85
$95	$75
$95	$70
*$95	
$95	
$85	
$85	
$75	
$75	
$75	
$70	

When using slots to set rates, another issue to consider is whether to count enrollment (i.e., the number of children actually enrolled with a provider) or capacity (i.e., the number of children that the provider can legally serve).

THE SURVEY METHODOLOGY

Sample or Census

Many States conduct a Census Survey, that is, they attempt to survey all of the providers in their State. Assuming that a large percentage of the providers respond, this is the most effective way to ensure that the survey accurately reflects the price of care in markets across the State. Ideally, the response rate should be as high as 80 to 85%, although 70 to 75% is generally considered acceptable.

Another alternative is to draw a sample. This means that a small group of providers is surveyed and the results are generalized to a larger group. But to be reliable, the sample must be properly selected and large enough to be representative.

Selecting a sample is a science. It is recommended that you consult a statistician when drawing a sample.

Telephone vs. Mail

Market rate surveys can be conducted by mail, telephone, or a combination of the two. Mail surveys are less expensive, but they tend to result in a lower response rate. Techniques that can help raise response rates in mail surveys include: sending a self-addressed, stamped envelope with the survey; sending reminder post cards;

including the name and phone number of someone who can answer questions; and providing incentives for providers who respond quickly (such as offering training vouchers for surveys completed.) Sending the questionnaire in a timely manner will help ensure that providers have adequate time to gather necessary data.

Telephone surveys will result in higher response rates. It is essential, however, that the individuals conducting the telephone interviews be carefully trained to ask the questions in exactly the same way every time and to clarify the questions if providers do not understand what is being asked.

Develop strategies for reaching providers with answering machines, such as asking the provider to return the call and arranging a convenient time to be surveyed.

Some States send out the initial survey by mail, and do follow-up telephone interviews with non-respondents.

Marketing Plan

Alerting the providers that the survey will be coming will help achieve a high response rate. Not only will the providers know that the survey is coming soon, but an advance notice will also provide important details such as who will be conducting the survey and why it is important to participate. You can send an informational letter with the details, and if possible, conduct information sessions.

The Survey Instrument

The survey instrument is KEY to ensuring that the data collected are accurate. The response to a specific set of questions depends, in large measure, on how those questions are worded. To this end, it is essential that all terms used in the survey be clearly defined. For example, do not assume that your respondents know what an infant is. Define this term right in the survey based on your State's subsidy policy (e.g., what do you charge for an infant, that is, a child who is one year of age or less?)

Ideally, providers should be able to respond to the survey in whatever units of service they use. However, if predetermineD rate units are used (for example, you are only gathering information on the price of care by the hour and the week), provide instructions so that providers who charge by the day or the month know how to convert their rates into these units.

For written surveys, pay careful attention to layout. The survey must be easy to read and complete. The length of time it takes to complete the survey is the key issue, not the actual length of the survey. Crowding too much information on one or two pages can result in a survey that is cumbersome and takes more time to complete than a survey instrument that clearly spaces the questions over 3 or 4 pages and can be completed quickly.

METHOD AND DESIGN CONSIDERATIONS TO DISCUSS WITH THE SURVEY EXPERT

- ★ Type of survey and cost of each—telephone, mail, email or a combination of the above
- ★ Questions to be asked
- ★ Definitions such as age groupings, part-day, full-day, etc.
- ★ Instructions
- ★ Sequence of questions
- ★ Layout of questionnaire
- ★ Languages in addition to English
- ★ Units of measurement—weekly, monthly or daily fees.

HELPFUL STATE APPROACHES

Market Rate Surveys Conducted by Telephone:

- ☆ California
- ☆ District of Columbia
- ☆ Massachusetts

Market Rate Surveys Conducted by Mail:

- ☆ New Hampshire
- ☆ Oklahoma
- ☆ Vermont

Contracting Out Your Market Rate Survey:

- ☆ Private Consulting Firms
- ☆ College or University Research Groups
- ☆ Child Care Resource and Referral Agencies (CCR&R)

Conducting a Market Rate Survey to Collect Additional Child Care Program and Staff Information:

- ☆ Ohio
- ☆ Oklahoma
- ☆ Vermont

Additional information collected by many States allows them to better understand the child care markets in their State. This information can help States, for example, to plan professional development and other quality improvement initiatives, and to identify whether the supply of available care meets the needs of the targeted population. Additionally, data may also be used to measure provider satisfaction with administrative procedures for subsidy payments.

Additional data collected to inform the State includes:

- ☆ Characteristics of licensed child care providers
- ☆ Current enrollment and population served
- ☆ Qualifications, wages, benefits, and working conditions of child care providers
- ☆ Payment-systems/ procedure related questions

Be sure to pre-test the instrument with a variety of providers in order to ensure that your questions are clear and respondents are able to provide accurate data. Pre-testing also allows for making sure the right questions were asked to accomplish the goals of the survey.

Conducting the Survey: In-house or Contractor?

It is important to think carefully about the time and expertise that is needed to conduct an accurate market rate survey. Unless you have available staff with a high level of survey expertise, contracting is something to seriously consider.

SUGGESTED IN-HOUSE "CORE COMPETENCY" REQUIREMENTS TO CONSIDER

- Agency Credibility
- Staff Expertise
- Funding Resources
- Workload Factors

Determine best time of year to conduct the survey

To ensure a high response rate, the survey should be conducted when most programs are operating. Fall enrollment tends to be peak enrollment, so in many ways it makes sense to conduct the survey in the fall. But providers can be very busy this time of year and it may be difficult to get their attention to respond to a survey. Summer may provide a more optimal time to conduct the survey, however talk with providers in your State about optimal times.

CONCLUSION

Now you have considered the ABC's of a Market Rate Survey. And yes, there are many challenges and complexities associated with conducting the survey. And you also realize that with an awareness of the issues involved and proper planning in conducting the survey, the process does not have to be as overwhelming as you might have thought.

As State Child Care Administrators, you should be encouraged to reach out to the many resources in your States to assist with conducting the survey. The market rate survey is one tool to help as you strive to ensure equal access to quality programs for all eligible children and families.

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a project of the Child Care Bureau

MARKET RATE SURVEY AT-A-GLANCE FOR POLICYMAKERS

What is meant by the term "market rates"?

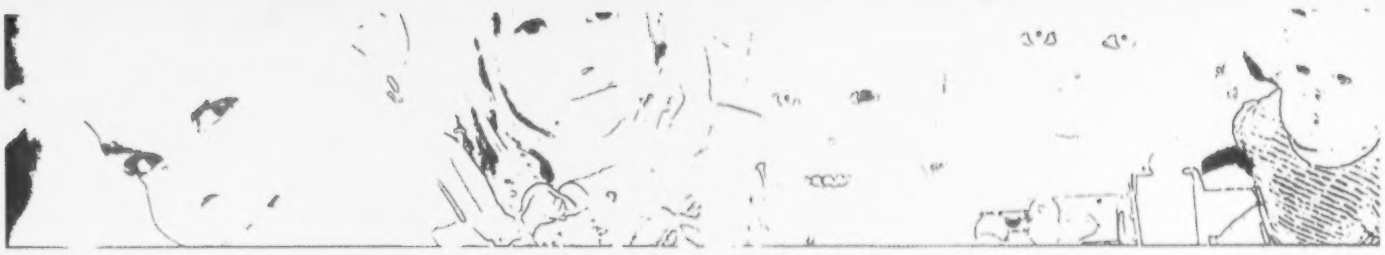
The market approach to child care reimbursement recognizes that the child care delivery system in the United States is primarily a private, fee-for-service system in which parents act as consumers by purchasing care for their children. When government enters the private child care market to purchase care for low-income children, it should, therefore, establish a rate structure that gives subsidized families the ability to purchase care comparable to that available to non-subsidized families. Basing reimbursement levels on the price of child care can achieve this end.

What is a market rate survey?

In economic terms, a market is any place where buyers and sellers interact. Because families tend to purchase child care near their home or work, child care markets tend to be geographically defined. A child care market rate survey, then, measures the child care rates charged by the providers—and paid by the consumers—in a specific geographic area. Because the price of child care can vary widely from community to community, it is important that market rate ceilings be established on the basis of small geographic units. A single statewide rate cannot accurately reflect the price of child care throughout the State. In most cases, county or regional rate ceilings more accurately reflect the market. Similarly, many States set rates that take into account cost variations for different types of care (e.g. family child care, center-based) and different age groups of children.

Why must states conduct a market rate survey?

There are several reasons to conduct a child care market rate survey every two years. First, the federal Child Care and Development Fund (CCDF) regulations require that states do so [45 CFR Parts 98 and 99, CCDF Final Rule, pg 39988, Section 98.43(c)]. Second, federal regulations also require states to establish subsidy rates that are sufficient "to ensure equal access" to child care comparable to that provided to families that do not receive subsidies. Basing reimbursement on the price of care in local markets can achieve this goal. Indeed, the CCDF Final Rule states that a survey of market rates is the only methodologically sound way for the State to ascertain whether its rates provide equal access. To ensure access, local rate ceilings should allow most providers in an area to be paid their usual and customary rates. Third, in addition to gathering rate data, market rate surveys can be a helpful way of learning about the policies and practices of child care providers in your State. These surveys are frequently used to gather the information needed to establish effective child care payment policies and procedures as well as to inform training and wage initiatives and other child care proposals.



If child care reimbursement rates are based on the price of care in local markets, won't the state be encouraging providers to raise prices?

There are a number of market forces that typically prevent providers from raising their prices to the maximum a State will pay. First, market rates are based on the price charged to all families—not just those who receive child care subsidies. Thus, in order to receive a higher public reimbursement, a child care provider must also raise the price charged to private, fee-paying families. Child care markets are quite competitive and the price of child care is typically based on what families can afford, or are willing to pay, not the actual cost of the service. In many situations, the actual cost of child care exceeds the price charged to families. In short, most providers cannot raise their prices without risking the loss of a significant number of their private, fee-paying families. However, in situations where the state is purchasing all—or most—of the slots in a particular program, there may indeed be an incentive for the provider to raise prices. In this situation, some States choose to negotiate a cost-based contract with the provider.

Second, States typically cap the market rate ceiling at the 75th percentile, which means that they will not pay rates as high as those charged for the top 25% of care in a market. (Many States make an exception to this rule in special circumstances, such as child care for children with special needs, care that is accredited or meets other high quality standards, care in rural areas where the supply is very limited, etc.)

Must child care reimbursement rates always be based on market rates?

No. So long as States ensure that subsidized families have equal access to child care that is comparable to that provided to families that do not receive subsidies, alternative rate-setting methodologies may be used. There are times when this approach may make sense, such as the situation noted above where all or most of the children enrolled in a particular program are receiving subsidies. Alternative rate-setting methodologies may also promote higher quality child care or services for special populations such as teen parents or children with special needs. Many States have established tiered reimbursement systems that offer higher rates to providers with higher quality services. A few other States have begun to experiment with financing strategies similar to those used in higher education, which combine direct subsidies to programs, such as contracts or grants (linked to specific program quality outcomes) with portable subsidies (child care certificates or vouchers) to families.

THE IMPORTANCE OF THE CHILD CARE PROVIDER IN A MARKET RATE SURVEY

What is a market rate survey?

In economic terms, a market is any place where buyers and sellers interact. Because families tend to purchase child care near their home or work, child care markets tend to be geographically defined. A child care market rate survey, then, measures the child care rates charged by the providers—and paid by the consumers—in a specific geographic area.

How will data from the market rate survey be used?

The most common use of data from a market rate survey is to help a State determine the rate ceiling for child care subsidies, or the maximum amount the State or county will pay for child care in a specific geographic area. But market rate surveys can also be a helpful way of gathering data to help establish policies regarding: absences, special fees (for registration, transportation, or other services) training and wage initiatives, rate units (e.g. hours, days, weeks) , and other relevant issues.

I don't serve subsidized children—so why should I participate?

The market approach to child care reimbursement recognizes that the child care delivery system in the United States is primarily a private, fee-for-service system in which parents act as consumers by purchasing care for their children. When government enters the private child care market to purchase care for low-income children, it should, therefore, establish a rate structure that gives subsidized families the ability to purchase care comparable to that available to non-subsidized families. Basing reimbursement levels on the price of child care can achieve this end. But price data are only accurate if providers in a geographic area respond to the survey. The survey results are not only a basis for setting subsidy rates, but if publicly available, will also provide information about the child care market that is useful for all providers.

What do I need to know before I respond to the survey?

Make sure you fully understand what is being asked and that all of the terms used in the survey instrument are clearly defined. If you are being asked to provide your rates by the hour or the week, and you typically charge by the month, make sure you understand how to respond. If you typically charge separate fees for registration or activities, find out if these fees should be added to your base rate or reported separately. Accuracy is essential.